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6 Q. Would you, please, state your full
7 name for the record and your business address.

8 A. Yes. Richard Allen, A-L-L-E-N,
9 Knowles. Business address: I'm housed out of Atlanta,
10 Georgia, 555 Glenridge Connector, Suite 900, Atlanta,
11 Georgia 30328.

3 Q. Do you know generally how long SAP
4 has had a presence in the United States in terms of a
5 subsidiary here?

6 A. Out of the 31 or so years that SAP AG
7 has been in existence, to the best of my recollection,
8 SAP America has been doing business in the United States
9 since the late 80s, mid to late '80s.

10 Q. And why is it that SAP AG has decided
11 to develop regional headquarters throughout the world?

12 A. I think it fundamentally goes to
13 strategy. Most customers want to do business with a
14 local entity, and they want to have local people that
15 they deal with. So in order to reach our customers the
16 best, it made sense to have a local presence and to
17 have a local infrastructure versus just being running
18 the operation out of Walldorf. So basically for
19 customer acquisition reasons and to build up a local
20 force to show that we are invested and have a
21 significant presence within the local country, which is
22 the U.S. and Canada.

23 Q. And in terms of SAP America, what's
24 the infrastructure that's been established here?

25 A. Infrastructure that's been established

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1 primarily is: We have regional headquarters building,
2 which is this campus that you're in today. We have
3 regional offices out, scattered throughout the United
4 States, which I cannot name them all, but they are in
5 certain cities. The acquisition of an employee base
6 northwards of 4,000 plus employees comprised of sales
7 staff, support, marketing, sales; a good chunk of
8 consulting, our own consultants. That's what I mean
9 by infrastructure. We of course have the back-office
10 function, we have our own finance team here, our own
11 marketing team, etcetera.

15 Q. And the fourth area of revenue that
16 you identified was the consulting organization. Could
17 you explain that.

18 A. Yes. Consulting, our consulting
19 organization is a service offering that we provide to
20 our clients. Typically in the implementation of
21 enterprise application software, it requires more
22 consultants to support the implementation of these
23 changes inside of a company than even we're capable of
24 delivering. We do have a small, relatively small
25 consulting organization in terms of what the customer

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1 needs. We maybe support anywhere from 10 to sometimes
2 20 percent of the implementation services needed to
3 install the software.

4 Our consultants are typically viewed
5 as functional experts on our software, and they assist
6 the client in implementing the software inside the
7 company. In addition, there's multiple partners that
8 are typically involved in the implementation. Those
9 companies are some of the bigger names that you may
10 have heard of such as Accenture, Deloitte Consulting,
11 Cap Gemini, etcetera. In general, we support the
12 implementation, not all of it, though.

13 Q. So that the consulting organization
14 is responsible for assisting in implementations;
15 correct?

16 A. Correct.

17 Q. However, in these implementations
18 SAP's role is limited to about 10 to 20 percent of the
19 implementation; is that right?

20 A. Yes; on average. There are occasions
21 where a client will not want to use an outside firm or
22 a partner firm. They'll want us to handle the full
23 implementation. That's a rare case. It does happen.
24 But on average, if you were to say, could we handle a
25 hundred percent of the consulting needed to implement

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1 our software? The answer is, absolutely not, we cannot
2 do it alone, we rely on our partners.

3 Q. Why is it you cannot do it alone?

4 A. Primarily it's a business model
5 question. And the reason why is we are not a services
6 company. We make our revenues and our profit margins
7 are derived primarily from the sale of enterprise
8 application software, not delivery of services. So it
9 is a service but it is not our primary business model,
10 and that's why.

11 Q. In speaking of implementations, given
12 that SAP has a limited role in these implementations
13 typically, is it left to the customer to negotiate with
14 a company to implement SAP software or does SAP partner
15 with an implementer?

16 A. Typically the customer negotiates
17 their implementation fees and services with the partner
18 firm. That is something that we are excluded from.
19 They may want to get some of our consultants on the
20 project, and that is a specific negotiation with SAP.
21 But if they want to deal with IBM or Accenture, they
22 are dealing with IBM and Accenture separately from us.

23 Q. Does SAP play any role in negotiating
24 those implementation contracts with a client?

25 A. No.

3 Q. So you mentioned that all of the
4 clients have kind of a different way of approaching
5 things, and that requires consultants to come in and
6 kind of help explain how SAP software will work; is
7 that correct?

8 A. In their environment to support their
9 business processes.

10 Q. Now, in this process, are they
11 converting to, I mean, are they maintaining their
12 differences, in other words, is the software they are
13 implementing the same whether it is a national company
14 or multinational company, subsidiaries, all the
15 different examples you used?

16 A. Without explaining the way our
17 systems are coded, because that's not my area of
18 expertise, at the core, yes; the software is similar
19 and the same. However, the way you configure our
20 systems to operate in a single site customer versus a
21 national versus a multinational conglomerate is
22 different. So it is similar but it can be different
23 based on configuration and what the needs of the client
24 are.

25 Q. So between those three types of

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1 organizations, you have differences in how it is
2 configured. How about looking at multinational
3 corporations just as a group, do they have different
4 configurations depending on how they run their
5 business?

6 A. Yes, they do. One of the caveats to
7 make it different is which vertical industry are they
8 operating in? For instance, a multinational or a
9 conglomerate. A multinational conglomerate that's in
10 the retail space typically runs their systems quite a
11 bit different than a discrete manufacturing in high
12 tech. So, yes, the systems have -- at the core the
13 code may be similar or close to the same, but the way
14 they actually use the system is quite a bit different;
15 and that means their configurations are going to be
16 substantially different.

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24 Q. So you think of these as separate
25 categories of product, you have the mySAP Business

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1 Suite as one category, mySAP All-In-One is another
2 category, and then mySAP One is a separate category; is
3 that correct?

4 A. Yes, sure.

5 Q. What is mySAP All-In-One?

6 A. Okay. All-In-One and Business One
7 are products that we've positioned in the market or the
8 way that we're going to market are really designed for
9 what we would consider our channels segment. And what
10 I mean by channels is companies that have revenues of
11 approximately 200 million and below in annual revenues,
12 we sell our solutions through a re-seller channel. And
13 the products that really fall into that space that they
14 can sell, they can try to sell mySAP ERP or Business
15 Suite, but that's a very substantiate sell to a hundred
16 fifty million dollar company.

17 So over the last two years we have
18 developed a smaller solution that's targeted for that
19 segment of companies. And those products are referred
20 to as All-In-One or Business One. So those are
21 products that are designed and targeted for that, the
22 companies of that size.

23 Q. Now, you mentioned these two products,
24 mySAP All-In-One and Business One, these were developed
25 in the last two years; is that right?

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1 A. We -- SAP acquired a company, and I
2 don't remember the date, several years back, and they
3 have expanded on the functionality, added some English
4 language and other languages to it in order to tailor
5 this solution to meet the needs of a smaller enterprise,
6 a smaller company, of the 200 million revenue smaller
7 type companies.

8 From a functional standpoint, it can
9 satisfy some of the same things that a large enterprise
10 company might buy; for instance, financials, human
11 capital, management or human resources, etcetera, but
12 it is targeted for a smaller company.

13 Q. Now, these two products, mySAP
14 All-In-One and Business One, are they two separate
15 products or are they the same code?

16 A. Cannot technically answer that
17 question at the code level.

18 Q. Is it your understanding it is the
19 same product but just with two different names?

20 A. They are designed to meet different
21 needs of the client. So I would, logic says they are
22 different because we're using them in and targeting
23 them differently. Do they share code? I'm sure they
24 share code. What is the level? I do not know.

3 Q. And then I believe you just said that
4 they are designed to perform different functions?
5 Could you explain to me, what is mySAP All-In-One
6 designed to do?

7 A. Without having the list in front of
8 me, I can't even -- at a high level I can tell you it's
9 going to be similar to my other answers, but without
10 having the specifics in front of me, I'm not going to
11 be able to answer the question to your satisfaction,
12 probably.

13 Q. Maybe it's easier to look at it this
14 way. What do you understand the difference to be
15 between the two products?

16 A. One is really to be, from a positioning
17 standpoint, the way at least we're positioning it in
18 our go-to-market plans, where one is for a single
19 entity or a small entity that's under 200 million
20 dollars in revenues, to be able to use the product
21 within their enterprises is one thing. Whereas, we
22 take Business One, it has the ability to actually scale
23 up. And one of the thoughts from a positioning
24 standpoint is for these larger companies that we do
25 business with today, often times we do not have

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1 software located in a lot of their subsidiaries.

2 And one of the thoughts is to be able

3 to use the scaled-up version of Business One, actually

4 use it in some of the subsidiaries. So if we had to

5 segment where the products could fall, we could

6 actually say, we could take that product a little bit

7 up market, maybe even up to a 500 million dollar size

8 company, whereas the other product is really more for a

9 very small entity, and what we categorically call small

10 entity being under 200 million dollars.

11 Q. Just so I'm clear, mySAP All-In-One

12 is really limited to this 200 million dollar and below

13 company; correct?

14 A. Correct.

15 Q. And the Business One product currently

16 is, the go-to-the-market plan for this is limited for

17 this 200 million dollar company; correct?

18 A. Right. We've not made a determination,

19 but we have looked at trying to position out how we use

20 that with our direct sales force to actually target a

21 lot of subsidiaries of the larger company subsidiaries.

22 Q. The option in the future is to take

23 this Business One product and market it to subsidiaries

24 of companies that are already using the mySAP Business

25 Suite?

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1 A. Right. That might be using a component
2 in their headquarters operation, but yet maybe their
3 local subsidiary has a unique targeted need, and we've
4 not been able to satisfy, that maybe use this because
5 it's a lower price point and a lot less functionality;
6 and maybe a subsidiary might be primed to use that.

7 Q. Now, you mentioned you use your
8 channel partners to resell these products, mySAP
9 All-In-One and the Business One. And if they can, they
10 are free to also market the mySAP Business Suite to
11 these companies as well; is that right?

12 A. Correct.

13 Q. You mentioned that's a pretty
14 substantial sell. Could you explain, what's the
15 challenge in selling this Business Suite to these
16 smaller companies?

17 A. The needs of a 100 million dollar
18 company for maybe their supply chain for a small
19 manufacturer makes about a hundred million dollars in
20 revenue versus the needs of like a multinational
21 conglomerate manufacturing operation. Their needs are
22 going to be substantially different. To say we would
23 like to take mySAP Business Suite and sell it to a
24 hundred million dollar company, the price tag and the
25 processes -- it would be overkill to sell to it them.

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1 They would have more functionality. They would be able
2 to maybe grow into a billion dollar company and not buy
3 another piece of software in their life.

4 The problem is, they wouldn't be able
5 to afford it. Too much functionality for a hundred
6 million dollar company. That's the problem. One of
7 our attempts is to, in order to meet the needs of the
8 lower end of the market, 200 million dollar companies
9 and below, we needed a product that was not as rich in
10 features, as rich in functionality, as big a scale that
11 we have developed with our Business Suite and be able
12 to target it more to specific applications in a much
13 smaller way. So that's why we came up with this
14 product line. That's why we procured the company and
15 have gone to market with these guys.

16 Q. So these companies, these 200 million
17 dollar and below companies, their needs are simpler
18 than, say, customers that are using this Suite. My
19 understanding is there's just too much functionality
20 within the Business Suite for them to be able to use
21 it?

22 A. To benefit from, correct.

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1 Q. Is the mySAP All-In-One product and
2 the Business One product priced differently than the
3 mySAP Business Suite?

4 A. It's priced similar in the way that
5 we price it but the price point is different because
6 there's less functionality, so you don't have to
7 charge, we do not need to charge as much; but the
8 pricing licensing model is the same.

9 Q. And so that the prices between these
10 three products really depends on the functionality of
11 the product?

12 A. That's being delivered, correct.

13 Q. Now, you had mentioned, you've got
14 this line at 200 million dollars and below for a
15 Business One and mySAP All-In-One. Why not sell these
16 two products to companies above 200 million dollars?

17 A. As I said before, we were considering
18 taking one of the products up market to, say, 500
19 million, 750 million, and allowing our direct sales
20 force to do that. That's still under consideration,
21 still is a possibility.

22 I think your question is a good
23 question except that the premise of your question is a
24 little bit wrong. And the way we look at it is, we
25 have not historically played very well, meaning, we've

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1 not gotten enough penetration. We're not satisfied
2 with the business results in the 200 million dollar and
3 below market, and we want to grow that business.

4 In order to grow that business, we
5 had to develop a much, you know, I'll use the simpler
6 term, a lighter solution offering for that space for us
7 to get some traction in that space. That's why we did
8 it. We're not looking at it the other way, the way
9 your question was phrased. And let me tell you why.

10 The reason why is because we know
11 that in the near future we're going to have a pretty
12 incredible competitive threat that's going to start
13 encroaching on that space and growing up market. And
14 we're doing this as a move to hopefully try to prepare
15 for an ensuing battle in that space. And that space
16 is -- and who I'm speaking of is Microsoft. We view
17 Microsoft as a massive competitive threat.

18 And we totally anticipate, and they
19 have already entered this space through their
20 acquisition of Navision and Great Plains. And their
21 penetration rate right now based on our business
22 analysis is greater and better than ours. They have a
23 better distribution channel than ours. They have wider
24 reach, and they have really two very good products and
25 channels that already existed that they acquired. They

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1 are in a much better position than we are. They are
2 growing up market. We know from a business standpoint
3 we have to go down market in order to prepare for the
4 battle.

5 Q. And this battle -- the battle that
6 you've identified is in this 200 million dollars and
7 below market?

8 A. That's just the beginning. The
9 battle we would term is the mid-market. So we would
10 say anything below 1.5 billion in revenues is really
11 going to be the battle ground of the future. And we,
12 from a business standpoint, everything we do from an
13 analysis standpoint going forward is in preparing for
14 Microsoft to come up market.

15 Q. So Microsoft's threat, just so I
16 understand, Microsoft's threat to SAP is in companies
17 currently in this 200 million dollars and below market;
18 is that correct?

19 A. Predominantly. But they are growing
20 rapidly and we anticipate their arrival up market very
21 quickly. When I say quickly, I mean, in terms of a
22 life cycle within a year or two.

23 Q. When you say up market, that's
24 companies 1.5 billion dollars and below; correct?

25 A. Yes, that is correct.

19 Q. Turning back to these mySAP
20 All-In-One and the Business One products. You had
21 mentioned they could potentially, your term is, scale
22 up to 500 million dollars and even 750 million dollar
23 companies; correct?

24 A. Depends on their needs, yes.

25 Q. What's the problem with using those

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1 products for customers even beyond that; why not use
2 one of these products to, why not sell one of these
3 products to companies with even greater revenues
4 perhaps?
5 A. Again, it's going to depend on the
6 customer and their needs and their architectural
7 limitations to the way the product is designed. What
8 those technical limitations are from a code standpoint,
9 I can't speak to, but there are limitations, and the
10 number of things it will do or the number of transactions
11 it will process; so it's a functionality limitation.

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24 Q. So you have an SAP client -- where
25 are they running SAP? If they are not running it at

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1 the subsidiary -- I guess I don't understand why the
2 subsidiary is not running the same thing as, say, the
3 parent company. What is the difference? Why is there
4 that distinction?

5 A. That's a very good question, by the
6 way. If we take a multinational conglomerate who may
7 be organized, they may have multiple companies. The
8 parent company may be running SAP but maybe two of
9 their subsidiaries or three of their subsidiaries they
10 may be running, because they are smaller subsidiaries
11 and they are rolling up to a parent conglomerate, they
12 may be running an older application, the Legacy
13 system. And the price point to solve that need, maybe
14 it's a 300 million dollar company that's rolling up to
15 this conglomerate.

16 For us to go and sell Business Suite
17 down to that 300 million dollar company, maybe we were
18 just not very good at it, maybe price point or their
19 needs were not met with trying to tie them into the
20 Business Suite offering that we did of the conglomerate.
21 So one of our marketing thoughts is that we've really
22 not, we've done really good penetrating some of the
23 bigger names and the bigger companies, but we really
24 haven't focused and been able to go down market fast
25 enough to serve all of the needs of these companies.

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1 So why not go to that 300 million
2 dollar company and say, we also have a solution for
3 you. You don't have to think you're operating this
4 bigger system, we actually have a smaller system that
5 you can use and, you know what, we could probably
6 position out how to tie it into the bigger SAP system,
7 too. That's why.

8 Q. Just so I understand, you've got the
9 corporate entity, say, the headquarters, and they are
10 running mySAP ERP; correct?

11 A. Yes, correct.

12 Q. But then underneath that corporate
13 headquarters you have a number of divisions at certain
14 companies; correct?

15 A. Sure.

16 Q. At each of those divisions they may
17 be running different software than, say, what the
18 headquarters is running?

19 A. Correct.

20 Q. So is it a different group of
21 companies that you may have one company at division
22 one, a different company at division two, and then at
23 the headquarters a completely different company,
24 software vendor?

25 A. Absolutely. We term that as a

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1 heterogenous environment. Most companies have a
2 heterogenous landscape in place. They do not use one
3 software package often times for everything in all of
4 their entities. We would love for them to do that, by
5 the way, but that is not often the case. So let me
6 give you another example.

7 It is not uncommon for a company, for
8 instance, to say, use SAP for their human resources
9 system in the United States, but yet use PeopleSoft in
10 their European operation, and maybe use Oracle in their
11 Asia-Pacific operation all for human resources. For
12 whatever reason, that is a typical heterogenous
13 decision that that company has made. Now, would we
14 like to have human resources globally for that entity?
15 Absolutely, but that's not normally the case.

15 Q. Sure. I guess the question really
16 is, in marketing to companies above this 200 million
17 dollar threshold, why does SAP have a direct sales
18 force?

19 A. Why do we have a direct sales force?
20 That's an interesting question. The solutions that we
21 sell, if I go back to my supply chain example earlier,
22 it would be somewhat unrealistic to expect a channel
23 partner who is not an employee of our company to be
24 able to walk in and understand the supply chain
25 implications and how our software can help a client

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1 without them being a direct employee trained by SAP,
2 representing SAP.

3 Often times channel partners
4 represent multiple lines of business. They sell other
5 products and services. So to anticipate that they
6 could be an expert or even a functional, be able to
7 speak functionally about our solution and what it can
8 do would be unrealistic. So we have no choice to be an
9 direct sales force because what we sell is complicated.
10 This is not shrink-wrap software that you buy at a
11 store, you know, in a retail establishment. So that
12 the only way to correctly understand the business
13 implications is to have a direct sales force.

14 Q. So this expertise about the product
15 is necessary to effectively market the mySAP ERP or
16 mySAP Financials to a potential client?

17 A. Absolutely.

18 Q. And that expertise can't be really
19 duplicated with your channel partners?

20 A. Not at the level of depth that is
21 required to properly understand the business
22 implications and the processes.

8 What is the difference, say, between
9 mySAP Human Resources and then the human resources
10 function in these other products Business One or
11 All-In-One?

12 A. Okay. That's a great question. I
13 would need to get you a map, a solution map and
14 actually be able to show that to you. To say I have it
15 memorized, I did not, and I do not have it with me. We
16 would need to look at by solution the differences in
17 functionality. And that is something that internally
18 we use for our own training purposes. For me to
19 articulate it, I would probably be speaking a little
20 bit amiss, and I don't want to be wrong.

21 Q. Let me ask you this, is mySAP Human
22 Resources, can it do more than what the human resources
23 function in the Business One or All-In-One product can
24 do?

25 A. Yes; in general, yes.

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1 Q. Do you have any idea of how big a
2 difference there is between the two?

3 A. No. And it would come down to the
4 function, you know. And for me to say, I do not know
5 this, but to say that, you know, the enablement of your
6 eRecruitment capability is existent in mySAP ERP but it
7 is not in Business One, I cannot off the top of my head
8 tell you that difference right now.

9 Q. Does the customer's choice really
10 come down to its requirements, what it wants?

11 A. Yes.

12 Q. The solutions it needs to do?

13 A. Yes. Typically when we work with a
14 client, it's not about what we're trying to sell them.
15 We don't go in and say, here, we have Business One or,
16 here, we have mySAP ERP. Look at everything we do. We
17 do financials, controlling, operations, HR. We don't
18 go in and do that.

19 The approach we take is, we go into
20 the customer and try to work with them on what business
21 process situation are they dealing with or what is it
22 that they are having the most struggles with? And
23 often times it is, well, I have three things that I'm
24 struggling with and we need to fix. We say, great,
25 that's wonderful. What are those three things? What

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1 are implications of solving those three things? And
2 then go back and say, do we have a solution? Maybe
3 it's just one piece of mySAP ERP. Might be it is
4 three, it requires three components of mySAP ERP in
5 order to fix their issues. It's more of that
6 collaborative type self versus here's a list of all my
7 features and software modules and here's our price;
8 unfortunately it's not that simple of a sell.

9 Q. Why not, why not simply go in there
10 with your product and say, this is what we have, this
11 is what it does for you?

12 A. Why? Because in each vertical
13 industry each customer in those vertical industries
14 tend to try to differentiate the way they run their
15 business. You know, an example is, why is it that no
16 one else in the world has been able to replicate what
17 Michael Dell has done? Right? He's just got a unique
18 business process, a unique supply chain operation in
19 order to operate PCs, and he gets his cash up front.
20 Why hasn't someone else copied him? Why? Because in
21 his vertical industry he's running his business in a
22 very unique way.

23 Well, to say that I can now say that,
24 you know, Compaq or HP now owns Compaq, they should run
25 their PC business the same way, they both have supply

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1 chains, they operate their supply chains differently,
2 they run their businesses around their processes
3 differently. So for us to go in and say, we have
4 supply chain solutions, here's all the features and
5 benefits, would you like to buy it today? That would
6 be a misnomer, because that would mean we would be
7 discounting and trivializing the way they run their
8 business.

9 So it's a competitive advantage for
10 Dell to run his business the way he's done his way,
11 versus Compaq running their business their way using
12 their business processes. So we have to take a very
13 individualistic sales approach in understanding their
14 business issues, their business needs and business
15 process in order to properly propose a solution for
16 them, because we have to support their business their
17 way in their industry; that's why.

18 Q. So it sounds like one of the first
19 things you need to do once you contact a client is to
20 really understand or potential client rather than to
21 really understand how they run their business; is that
22 right?

23 A. Yes.

24 Q. And each business is run slightly
25 different?

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1 A. Yes.

2 Q. Now, does that include -- are there
3 differences between, say, how one company does
4 financials and another company does financials?

5 A. At the rudimentary level? No.
6 Everybody has to agree and abide by GAAP. But there's
7 nuances in the way they might account or recognize
8 revenue, the way they might want to run their expenses,
9 run their, configure their cost of goods sold. There
10 are nuances. And it depends on by industry. You know,
11 the way the chemical industry accounts for certain
12 components in their line of business is going to be a
13 little bit different than the way a retail manufacturer
14 runs their business.

15 Q. Now, within those -- you mentioned
16 broad industry differences. Going back to the example
17 you mentioned earlier, Dell and Compaq, might their be
18 differences between how each of those companies report
19 their financials that is important to SAP?

20 A. Sure, could be. For instance,
21 Dell -- I'm not speaking as an expert on Dell, just
22 know that up front, people -- but for Dell, they may
23 procure all of their parts from out-source vendors,
24 whereas Compaq who now that HP owns them may actually
25 still manufacture a lot of their components. So the

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1 way they are going to account for their in-process
2 manufacturing of raw components to go into their
3 product is going to be quite a bit different than the
4 way Michael Dell is going to have to account for using
5 a sourcing model. They have to roll-up numbers. The
6 way they do it is going to be different and the
7 process, the way they do it, is going to be different,
8 and these differences between not just industries but
9 between companies.

10 Q. Those differences have implications
11 on the software you provide them?

12 A. Oh, absolutely. Again, that comes
13 down to maybe the same solution financials,
14 hypothetically, but the way we configure it to work and
15 configure the processes and the transactions to flow
16 are going to be different.

17 Q. In terms of mySAP Human Resources, we
18 started this discussion on them.

19 A. That's fine.

20 Q. You've had these discussions with a
21 potential client to try to understand how their
22 business works and what are their problem areas;
23 correct?

24 A. Okay.

25 Q. From there you mentioned you have to

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1 configure it differently. What does that configuration,
2 just using Human Resources as an example, what does
3 that entail, what do you need to do?

4 A. That's a technical question. So at
5 the code level and how you actually implement it, that
6 is not my level of expertise. I would probably be
7 misspeaking if I tried to answer it correctly. I would
8 say that's a technical question for a technical
9 expert.

10 Q. But those are important questions to
11 understand if you're going to sell software solution to
12 a company?

13 A. To meet the needs of that client,
14 that specific client, yes. At a high level I can give
15 you an example though for human resources. Part of our
16 human resources is employee self-service. And this is
17 with all the privacy laws that are beginning to take
18 place, employees need to have the ability to update
19 their information, their address, their personal
20 information, things like that.

21 Human resources and a lot of the
22 privacy laws are saying that employees should be able
23 to modify his or her information themselves without
24 having to go to someone in the company or HR, because
25 that's private, that's confidential information, the

00070

1 employees should be able to do that themselves.

2 To enable employee self-service for

3 all the employees in the company is going to require a

4 configuration different type of setup to enable that to

5 happen in the system versus the company that says, well,

6 we just got a centralized human resources department

7 and we're going to use a bank of, a call center

8 environment. And if an employee needs to update a

9 change of address, they can call this 800 number, and

10 the human resources professional or the call center

11 agent can update that information. Oh, the end result

12 is still the same, right? Change of address, processed.

13 The configuration to support employees doing it

14 themselves versus a call center environment doing it is

15 distinctly different. So our systems have to be set up

16 or configured to do that in a different way. That

17 would be the high level configuration difference.

18 Q. You described the kind of different

19 functions, at least at a broad level, of what human

20 resources does. Could you do the same for mySAP

21 Financials; what are the sorts of functions that that

22 performs?

23 A. At a high level you have traditional

24 cost accounting or accounting. You have controlling or

25 budgeting processes, you have management reporting, so

00071

1 performance against budget; capital management which

2 deals with how you are handling, I think, your debt

3 financing, your debt equities.

4 Q. So those are some of the functions

5 that the mySAP Financial solution provides?

6 A. Correct.

7 Q. And then there's nuances depending on

8 what customer you're serving?

9 A. Correct, how they want to account for

10 their revenues and expenses, yes.

11 Q. And so to some extent each solution

12 that you provide is unique in the sense of how it is

13 configured for that client's needs; correct?

14 A. Correct. And for that particular

15 client and also by industry.

4 Q. Just cycling back when we were on the
5 subject, when we were talking about some of the
6 differences, you had mentioned, well, the 200 million
7 dollar company and below has much different needs today
8 than a multinational corporation; correct?

9 A. Traditionally, yes.

10 Q. So that the multinational corporation
11 has needs that are much different than, say, what a
12 small business, a 200 million dollar and below company
13 would have?

14 A. In the way we work with them, that is
15 usually our findings. But let's use the previous
16 example again. Let's say a 200 million dollar company,
17 we -- they have an HR need -- today our product line
18 for that area would say, you know, we can handle your
19 payroll processing and employee information catalog,
20 that information for your employees. If they came to
21 us and said, what we really need is an eRecruitment
22 process, we really want to do that or we want to do
23 something else, that would be broader than what the
24 Business One product could offer. If that's really
25 their business process issue that we need solved, then

00080

1 we're probably going to have to talk about Business One
2 and something else or maybe mySAP ERP but only selling
3 the HR function; so it depends.

4 Q. Let's focus on the multinational
5 corporation. What are their needs? You mentioned
6 these corporations, and you said they have different
7 needs. What exactly are those needs?

8 A. It varies. It depends on their
9 solution. If we look at --

10 Q. Let's look at HR, for example, if
11 they are looking for an HR solution, what is it that a
12 multinational corporation needs?

13 A. Okay. The way we architect our
14 solutions are based on what we anticipate the market
15 needing on and/or what customers told us they need. Do
16 we handle every need they need? No. But, in general,
17 for human resources, you're going to be looking at
18 employee services, employee self-service, manager
19 self-service, meaning the manager needs to manage their
20 employees and have access to reports for them.

21 Second is payroll processing, people
22 need to get paid. Third would be the analytics around
23 work force management. And the fourth general category
24 for HR would be human capital management in the
25 acquisition of talent, so that the talent pool, hiring,

00081

1 firing the management of compensation plans, performance
2 appraisals, reviews, those types of things. Those are
3 four general categories. Under each of those categories
4 there's a litany of things we do, but those are the
5 broad ones.

6 Q. Now, are there unique challenges in
7 looking at a company with operations globally; you have
8 these four general areas, but those four general areas
9 might be shared by a number of corporations and they
10 might not be multinational?

11 A. Correct.

12 Q. Looking at the multinational company
13 globally, are there unique challenges, specifically,
14 looking at human resources first?

15 A. Based on human resources laws, without
16 trying to understand each of the laws and the countries
17 that we operate, there are different laws, for instance,
18 benefits management, and what you have to provide for
19 your employee differ based on country. So the way we
20 would account for that, the software, the way we would
21 actually manage that in the software would be dependent
22 upon that; so, yes.

8 Q. Are there challenges in designing a
9 software to perform that sort of function, to perform
10 reporting or following human resources functions
11 throughout multiple divisions into a single entity?

12 A. Yes. That is a -- it can be a
13 complicated process.

5 Q. Looking at HR, what are some of the
6 things you would have to track globally, what does the
7 software have to be able to handle globally?

8 A. If we just think on the payroll side
9 of the process, each region that we operate in different
10 countries have different requirements surrounding what's
11 taken out of the person's paycheck, whether it be
12 Social Security or the equivalent in a European
13 country, the taxation tables are usually localized,
14 state and local taxes or state and local fees are
15 usually localized and changed sometimes on a yearly
16 basis. So those things are changed readily and have to
17 be updated in the systems in order to make sure payroll
18 processing occurs correctly.

19 To use your other example of
20 financials, when we roll-out financials for multiple
21 countries typically the financial systems have to
22 support the local currency at the operation, but yet
23 when you roll it up to the parent head, it has to be
24 converted into local currency for financial reporting.
25 So if you have a U.S.-based operation, everything will

00084

1 be converted to U.S. dollars for reporting.

2 Q. So the mySAP Human Resources package,
3 first, that will allow you, if you're a global
4 corporation, to track payroll benefits administration
5 in a number of different countries?

6 A. Absolutely.

7 Q. Is that a challenge to the software,
8 is that difficult to do?

9 A. Yes, that's difficult to do, because
10 not only is that the function that has to be developed
11 or built to do, but we also have to internationalize
12 the software, which means we have to develop the
13 software in the local country language. So it's not
14 only that it's HR, it's HR written in your language, in
15 French, but yet in the U.S. it's delivered and viewed
16 from the U.S. employees' language, but yet the process
17 is, we still account for certain pieces of information
18 on an employee, whether they are in France or in the
19 U.S., and we have payroll processing requirements for
20 French employees and U.S. employees.

21 So it's actually two different
22 levels: One is, how do you interact with the software
23 and the ability to make sure it's communicating with
24 you correctly from a language perspective? And then
25 underneath it, in the operation of the process, be able

00085

1 to handle the French requirements versus the U.S.
2 requirements versus the Canadian requirements. I would
3 consider that pretty complex, yes.

4 Q. And those two kinds of areas that you
5 have just identified, those are demands that
6 multinationals need from their software. Let me
7 rephrase. I apologize.

8 You had mentioned, first you have
9 this language difference, and then underneath that
10 there's the way the process is and how it is reported
11 in each country?

12 A. Correct.

13 Q. And this creates certain demands on
14 the software?

15 A. Correct.

16 Q. That's not easily, it's not easy to
17 develop those sorts of functionalities?

18 A. I'd be careful in using the word
19 saying, not easy. It really comes down to, in the
20 software world, a function of time and money. You can
21 almost do anything if you have enough time and you have
22 enough money to do that. We happen as SAP to develop
23 our software, and we handle, I can't remember off the
24 top of my head say, 35 different currencies or 28
25 different languages, I'm not positive of the real

00086

1 numbers, but then of course a lot of it is in English,

2 and some countries still rely on the use of English if

3 we don't support their local language. But, yeah, is

4 it difficult? No. It requires time and effort.

5 So, I mean, if someone wanted to and

6 they only had English today, and they wanted to develop

7 a French language and understand the French laws, then

8 it requires then to go to France and make sure they

9 develop the code to support French language and French

10 laws.

9 (Exhibit No. Knowles-4 "Lawson Attack
10 Plan 2004," 12 pages marked for ID.)

11 BY MR. ANDEER:

12 Q. I'd like to show you a document, and
13 I'll mark this as exhibit number 4. Mr. Knowles, I'd
14 like to hand you a 12-page document entitled, "Lawson
15 Attack Plan 2004." I've labeled this as Knowles
16 exhibit number 4 for identification.

17 A. Yes.

18 Q. Do you recognize this document?

19 A. Yes.

20 Q. And can you describe this document?

21 A. Yes, I can. This is a positioning
22 document that we have internally inside SAP. And what
23 we do with this document is, we compile it through our
24 market intelligence team in order to help our
25 salespeople sell against Lawson.

00094

1 So in a competitive situation, when
2 they go up against Lawson in a sale, that we know
3 about, sometimes we don't, that we know about, these
4 are the things that we have gained from insight from
5 previous sales cycles and/or publicly-held information
6 that we have gathered to try to arm our salespeople
7 with the information to differentiate SAP versus
8 Lawson.

9 In this document, as you can see,
10 there is, we take -- point out positions, we position
11 what is our strength and what -- list the weakness of
12 Lawson and categorize that as an attack position;
13 that's their weakness.

14 Q. I'd like to turn your attention to
15 page 3 of this document. And the heading is,
16 "Positioning Against Lawson," and there are several
17 points underneath.

18 A. Okay.

19 Q. Looking halfway down the page under
20 "Issue," it says, "Only six percent of Lawson revenue
21 is from international operations." Underneath that it
22 reads, "Attack: Lawson talks about global expansion
23 but has failed to execute."

24 A. Okay.

25 Q. What is meant by Lawson talks about

00095

1 global expansion, what do you understand that to mean?

2 A. By the way, the reference is 58

3 languages there. So I stand corrected.

4 Q. You're talking there, when you say 58

5 languages?

6 A. That's the strength. We have 58

7 language support. What this means is, in our analysis

8 of Lawson, either from speeches that they've given or

9 publicly-made available information or reports that

10 have been written or magazine reports, or maybe even

11 sales cycles where we've got firsthand knowledge from a

12 client, we have been told that Lawson talks about

13 global expansion, meaning they are going to enable

14 other country support: they are going to grow; they

15 have aggressive growth plans to go international.

16 And we have found that to be weak,

17 because if we look at their revenues and the way they

18 report their earnings, they clearly state that, you

19 know, approximately six percent or less of the revenues

20 come from outside the United States. So we adjust find

21 that as a contradictory statement. So the position why

22 it is here is, not that we want to call that into

23 question in a sales cycle, what we wanted to is

24 position to tell our sales people that when they are in

25 a sales cycle, especially if they happen to have

00096

1 operations in a global scale, and they are looking at

2 Lawson, that's a question that should be at least

3 asked. And we should position our strength.

4 Our strength is, we have a global

5 reach, 120 countries, X-number of installations,

6 support 58 licenses, we understand the global needs,

7 and we're in a better position to serve your needs than

8 Lawson is. That's the way it is positioned.

9 Q. And positioning yourself against

10 Lawson this way, do you similarly position yourself

11 against PeopleSoft in the same way in terms of

12 PeopleSoft, say, taking out Lawson, PeopleSoft, talks

13 about global expansion but has failed to execute?

14 A. We would probably not make the same

15 type of declarative statement on PeopleSoft in that way

16 because PeopleSoft has expanded. We would actually

17 spin it a little differently. We would say, PeopleSoft

18 has expanded and, but actually in recent years they've

19 actually withdrawn from some markets, from what we can

20 tell, they've cut their support for some international

21 work. And we would probably actually say they have

22 tried to re-entrench.

23 Q. But they certainly have a larger

24 footprint than what Lawson would have?

25 A. Absolutely, that's why we wouldn't

00097

1 make this statement.

2 Q. Substitute that with Oracle. Oracle
3 talks about global expansion but has failed to execute,
4 would that be a statement that you would try to position
5 yourself?

6 A. No, we would not make that statement
7 about Oracle at all. We would say, Oracle has done a
8 fairly decent job expanding globally, but what they
9 have failed to execute on is meeting the needs of the
10 local market. They've not done a very good job meeting
11 the local needs of the country that they are operating
12 in; and we would call that into question.

13 And we would actually call into
14 question their track record. Look at our track record,
15 we've consistently grown, invested, expanded into other
16 countries in order to meet the needs of our clients.
17 Can Oracle say those three or four things in the same
18 sentence? The answer is, no. That's the way we'd
19 pitch it.

20 Q. In terms of this positioning against
21 Lawson, what type of client would you make this
22 statement to; is it the multinational corporation
23 that's looking for a global roll-out?

24 A. Anyone that's operating outside the
25 United States, we would probably be inclined to make

00098

1 the statement. Again, the way this positioning
2 document is used, it is used as a sales and training
3 aid internally and as for reference. It is up to the
4 account, up to the account executive to determine what
5 they say or how they positioned SAP inside those sales
6 cycles.

7 We don't actually say, use this only
8 in this situation. So understand that as the backdrop.
9 Looking at, you know, the way we've compiled this
10 information, anyone that has operations outside the
11 United States or around, that are operating in multiple
12 countries, to me this would be fair game to call into
13 question what is going to be their support.

14 Q. Looking at the next page, page 4 of
15 exhibit 4, the first point: "Lawson offers solutions
16 for few industries.

17 "Attack: Lawson does not offer
18 solutions for manufacturers."

19 A. Correct. They don't.

20 Q. So is this to say that, I mean, first
21 let's take the first thing. What is the relevance or
22 significance of the fact that Lawson offers solutions
23 for few industries? And I ask with respect to how SAP
24 is positioning itself versus Lawson.

25 A. It would depend upon the sales cycle

00099

1 in this case. If it isn't -- Lawson attempts to --
2 typically where this would come up is, Lawson would
3 attempt to sell their solution to maybe a company that
4 they've, or to a company and an industry that they've
5 really not supported.

6 For instance, they offer financials,
7 and maybe they think they are really good at financials,
8 and maybe they are, but the needs of say a chemical
9 company in financials, maybe they are trying to sell to
10 this chemical company. If we were up against Lawson in
11 that sales cycle, we would say, why would you go with
12 Lawson when, one, Lawson doesn't really have their
13 software developed to serve the chemical needs, your
14 chemical needs? They don't really understand your
15 industry. And, as a matter of fact, all of their
16 business typically is in these other industries,
17 typically service related industries or healthcare.

18 Now, if you're going to make a
19 choice, Mr. Customer, who would you rather go with,
20 with someone who actually understands and is associated
21 with vertical industries, such as ourselves, 23, and/or
22 someone who has a lot of deep experience in the
23 chemical industry, such as SAP? Who are you willing to
24 invest and risk doing business with in choosing a
25 partner for the future? That's kind of how we would

00100

1 use that as a position.

2 Q. In working through Knowles exhibit 4,
3 I'd like to turn your attention to page 6 of this
4 document. I believe this is a point we talked about
5 earlier in terms of SAP's investment in research and
6 development. At the top of the page it says, "Issue:
7 Lawson's spent far less than SAP and R&D, parentheses,
8 \$53 million.

9 "Attack: Lawson spent 14 percent
10 less on R&D over the past year."

11 And, finally, "SAP Strength: SAP
12 spends more money on R&D than any other business
13 application vendor."

14 Looking first at the significance of
15 Lawson's spending on R&D, which in this document says
16 53 million dollars, what is the relevance or significance
17 of that figure in positioning SAP in competition with
18 Lawson?

19 A. The way that this is used for
20 positioning purposes is not so much the issue as it is
21 the attack line. What we have seen with Lawson is that
22 they have actually curtailed their R&D spend over the
23 years, whereas SAP has on average consistently increased
24 our R&D spend as a percentage of our revenues. The
25 fact they've reduced their spend by 14 percent in one

00101

1 calendar year should be a signal and to a client should
2 be a concern, how serious are they willing to continue
3 to invest to improve their products?

4 The argument is, SAP has not had a 14
5 percent decline in any one year. It has consistently,
6 from a trend line perspective, increased our R&D spend,
7 which basically says we are more committed to our
8 customers, more committed to the products, and are
9 willing to put more money behind it to be make sure we
10 deliver the best enterprise application software in the
11 world.

12 That would be the way we would
13 position it, not so much the fact they spent 53 and we
14 spent 910 million. That's not a fact, that's just
15 scale. The fact is, what is important is what they've
16 just done. So the reason we position it is to say, how
17 committed are you to make a decision for Lawson when
18 they are not even putting the dollars behind that
19 product to improve it, Mr. Customer? That's the way we
20 would position it.

21 Q. And are customers -- what has been
22 customers reactions to that message from SAP; is that
23 something they find significant?

24 A. Some customers it resonates very well
25 with, some customers it's just another data point.

00102

1 Again, any one of these issues slash attack positioning
2 things could be critical. If you have a buyer, you
3 know, buyer selection and buyer mind-set, you may have
4 someone that's really a high end technical guy that
5 believes in R&D, loves to talk about R&D. To him or
6 her R&D is really important. Well, then our sales
7 person should be smart enough to say, wow, I should
8 probably be hitting on this point versus someone who
9 could care less about R&D. It just all depends on the
10 sales cycle.

11 Again, in Lawson's case, this is a
12 relatively fresh document. From a competitive
13 standpoint, we don't -- since they don't handle
14 manufacturing or typically selling to manufacturing, we
15 don't see Lawson like everyday. I mean, Lawson is very
16 specialized, they have a very good solution set for the
17 vertical industries that they serve.

18 Q. Looking at this spending and
19 reductions in spending at Lawson, and referencing the
20 earlier point on their talking about global expansion,
21 does this figure have or this 14 percent reduction have
22 any impact on that sort of message?

23 A. Sure. We would combine the two
24 points together, depending on the sales cycle, to use
25 that. We would call into question, maybe that 14

00103

1 percent was to cutback on maybe some development work
2 that they were planning to expand. I don't know.
3 Maybe you should be asking Lawson that. That's the way
4 we would position it. Mr. Customer, we haven't done
5 that. I don't know Lawson's business but my information
6 tells me they've actually cut back on their R&D spend.
7 Maybe it's a fair question for you to ask. We want you
8 to be really comfortable with the decision you're about
9 to make, Mr. Customer.

10 Q. So if Lawson was serious about
11 expanding globally, you would expect a higher spending
12 in R&D?

13 A. We would see -- we should see a
14 positive trend line going up.

20 Q. The "Attack: Lawson focuses on
21 mid-market, North American centric businesses.
22 "SAP's Strength: SAP has long had
23 the reputation for being the most scalable ERP system
24 on the market. Its highest sales and distribution
25 benchmark claims 47,528 users with transaction times of

00104

1 under two seconds."

2 A. Correct.

3 Q. Starting with the first point issue,
4 looking at the point, scalable, I know we defined the
5 term earlier, but is it the same definition here; what
6 do you understand the meaning of "Lawson's solutions
7 are not scalable"?

8 A. This goes to architecture in the way
9 they build their product. The way we position Lawson
10 in this issue is that -- and we do not have Lawson's
11 benchmarks, but that's why we didn't write it -- but
12 inherently Lawson's technology, and the way they've
13 architected their product, they are limited to the
14 number of users that their systems can support, and the
15 speed at which they can process transactions through
16 their system.

17 So can they handle 47,000 users on
18 the system and give a response time of less than two
19 seconds? Answer is, no, absolutely not. What is their
20 response time? I'm not sure. Maybe it's 10 seconds.
21 Maybe it's a minute. Maybe they can only handle up to
22 2,000 people, but they can't handle 47,000 users on the
23 same system at the same time. So the way they've
24 architected their product, because they made an
25 architectural decision in way they write and develop

00105

1 their code, has created a capacity limitation for how
2 their software functions and which business processes
3 and the number of transactions those processes can
4 handle.

5 That is a limitation, a capacity
6 limitation that they've designed. They made a
7 strategic choice to do it that way. All we're doing is
8 saying, they are limited, you cannot grow and scale up
9 your organization. So if you have a customer that's on
10 a growth acquisition binge, and they need scale or they
11 have a lot of employees or a lot of transactions they
12 are going to process, this would be a weakness, and we
13 would need to point that out.

14 Q. Just in terms of scale-ability, this
15 would be relevant to human resources?

16 A. Human resources, financials.

17 Q. Across the board?

18 A. Across the board.

19 Q. So all of their products have these
20 scale-ability limitations?

21 A. They have scale-ability limitation
22 based on the architecture of their product, that is
23 correct.

24 Q. You mentioned the architecture for
25 Lawson has these limitations. And we've talked about a

00106

1 couple of other vendors. Do you know whether this
2 would be an issue that you would raise in a competition
3 with PeopleSoft?

4 A. It would not be nearly the issue with
5 PeopleSoft or with Oracle because their architecture,
6 from what I understand, their architecture is quite a
7 bit differently; they can handle a lot more transactions
8 at a much faster rate.

9 Q. In today's marketplace, is it an
10 issue you would raise if you were positioned against
11 Microsoft?

12 A. Today, yes, we would use that as an
13 argument against Microsoft. Microsoft's Great Plains
14 product, Navision product is limited. They have a
15 scale-ability issue. They are designed for one,
16 two's, three operations. They are not designed for an
17 enterprise yet. If you look at their R&D spend, that's
18 a totally different animal. We would project their
19 spend to be substantially increasing, and that's why we
20 are tracking them as a serious competitor.

14 Q. First, could you kind of explain,
15 what is involved with configuration; can you describe
16 it?

17 A. Only at the crude level. I mean, the
18 technical terms and explanation, that's more on the
19 consulting side. I will not be able to actually tell
20 you the detail. Only thing I can tell you is that from
21 a process standpoint, if you need to configure
22 different types of transactions and the way they flow
23 through the system, that is a configuration issue.
24 Now, the depth by which how you actually go into the
25 code and configure it, I cannot tell you that.

00108

1 Q. But you have an ability, looking
2 first at mySAP Human Resources, you can conform that to
3 the buyer's business practices?

4 A. Correct.

5 Q. And for mySAP Financials, you can
6 conform that software application to the buyer's
7 business practices?

8 A. Correct.

9 Q. Looking at some of the products we've
10 looked at earlier, Business One and mySAP All-In-One,
11 can you configure those products?

12 A. Business One, you can configure it
13 slightly. It's severely limited, for instance, in HR
14 it only does the two functions. So it's very limited
15 in functioning. All-In-One, it's not designed to be
16 configured. It's designed to be an out-of-the-box
17 solution. You know, it's beyond shelf ware, I mean,
18 shrink-wrap software, but it is designed to be operated
19 out of the box. This is what it does. It does A to Z,
20 and if you want to change things, it's really not
21 designed for changing. Business One is, you know, semi
22 configurable, and then everything else is, you know,
23 highly customized and configurable.

24 Q. In terms of the ability to configure
25 Human Resources applications or, say, Financials

00109

1 applications, does it require, does it put certain
2 demands on the way you architect your software?

3 A. Configuration -- I may be a little
4 off on this, but I don't think I'm going to be too
5 far. The way our software is architected, our
6 technology platform, etcetera -- that's one set of
7 decisions. Configuration is the ability to modify the
8 way a transaction moves through the system. That is
9 part of our foundation for the way we architect it, but
10 it is not core to the architecture. So that is the
11 best answer I can give you.

12 Q. Now, I've also heard another term,
13 and perhaps it is the same as configuration and perhaps
14 it is different; if it is, I'd like you to explain it.
15 Customization, is that something different than
16 configuration?

17 A. Traditionally it's considered
18 different. Configuration is enabling processes to do
19 different things or to move through the system in a
20 different way. Customization is when you want to do
21 something that is outside a configuration that is
22 unique, where we need to write additional code to make
23 the software do something; maybe it's a special
24 application that the client wants us to enable that we
25 don't have in our standard offering today. So, yes,

00110

1 they are different.

2 Q. And is the mySAP HR application, is
3 that customizable, can you customize that to, say, a
4 customer's demands?

5 A. You can customize any piece of code
6 to a customer's demands.

7 Q. Is that something SAP does regularly?

8 A. Yes. We have an organization that
9 writes customer code for customers.

10 Q. And that's HR Financials across the
11 board of the suite?

12 A. It doesn't -- it's not dependent upon
13 the title, it's based on the need of the client. We
14 don't call it anything. It's just, you know, what is
15 it you need us to do that we don't currently do today?
16 We'll develop it for you.

8 Maybe it's helpful to look at some of
9 these other areas. In terms of banking, what are the
10 opportunities there, and what has your analysis told
11 you about that market?

12 A. Okay. Banking is a great opportunity.
13 We are not, as you can tell by what we anticipate
14 getting revenue out of there, it's less than a million
15 dollars, so it's not a very good operation for us. We
16 have banking solutions around the world that serve
17 other world clients adequately. However, the United
18 States for whatever reason has unique needs that our
19 solution does not compute.

20 As an example, if I recall correctly,
21 there's a need in the U.S., for whatever reason
22 Americans like to have average, we run our banking
23 operations based off of average daily balances, and
24 that's how we compute fees in the banking environment.
25 Well, our software is not designed to compute average

00127

1 daily balances for whatever reason, because that's, you
2 know, in Europe that's not the way they run their
3 banking operations. We do need to remember we did grow
4 out of a European centric need development organization.

5 So can we sell a banking solution?

6 Not really. Now, can we sell them financials for their
7 own internal use? Yes. However, there's other
8 competitors out there that can solve or commit to
9 solving the banking needs far better than SAP today.
10 Is that an area where we think we can compete? Yes,
11 but it requires more investment on our part to really
12 be a contender in banking. And we've just not made
13 that investment yet. We sell into banking on an
14 opportunistic level.

15 Q. You had mentioned that it takes some
16 investment to, at least in the banking area, to tailor
17 your solution to American banks needs.

18 A. Correct.

19 Q. What kind of an investment are you
20 talking about?

21 A. Development investment, typically.

22 Q. That's time and money?

23 A. Time and money. We have to take so
24 many developers and pay them to develop the requirements
25 and the solution to meet the local banking needs, and

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1 that is, that's a business case. How much time and
2 money does it take and what is our opportunity cost to
3 do that? Because we only have so many developers. We
4 would have to pull them off other projects to customize,
5 to make it work for the U.S. What does that cost
6 versus if they did that in development back in Germany
7 or wherever and developed it to us, how much revenue
8 can we get and how fast can we makeup that cost
9 differential? So how quickly can we recover our cost
10 from a return?

11 Based on the way we see other
12 opportunities in the landscape here, in the United
13 States, one of our elements of determination is,
14 banking represents an area of growth, but we can get
15 growth in other areas, so I think we'll focus our
16 attention on other areas. But if a bank really wanted
17 to do business with us, we'll do business with them if
18 they are willing to make the investment. So it's a
19 trade-off for us.

12 Q. Returning to these emerging markets.
13 Banking I believe you described as kind of an
14 opportunistic market, that is, if an opportunity
15 presents itself to SAP, you'll take advantage certainly,
16 but it is not an area that SAP has decided it really
17 wants to invest?

18 A. Correct.

19 Q. Is that true for some of these other
20 markets listed here?

21 A. Yes. Opportunistically we, the
22 industries we view opportunistically are hospitality,
23 transportation, healthcare, and all financial services
24 companies, with the exception of, I can't remember the
25 breakdown for financial service, there's one category

00133

1 in financial services that we don't chase.

11 Q. So looking at this first bullet
12 point, "Reputation for being costly and difficult to
13 implement," I guess the first question is, what does
14 that mean?

15 A. We're usually higher priced and our
16 solution is more complex than other solutions, and it
17 requires extra effort to implement it; in certain
18 cases, depends on what you're implementing, that's
19 true.

20 Q. And in what cases is it true?

21 A. It depends on the situation.

22 Q. Are there certain situations that
23 jump to mind in which this would be an accurate
24 statement?

25 A. None that I can recall. Again, it's

00153

1 the reputation, it's what we're being told. We don't
2 necessarily believe it ourselves, but we tend to be on
3 the higher side of the cost, at least in the past we
4 have been, not in the last couple of years, our costs --
5 our pricing has come under pressure. So, no, I mean,
6 the way we work with our sales force is, these are
7 perceptions that have to be oversold in a sales cycle,
8 because these are, you know, we tell sales guys, this
9 is what the customer's mind-set is being viewed like.

10 You're going to be sold: SAP, I
11 don't even want to consider you because you're too
12 expensive. SAP, you're hard to implement, don't even
13 want to go there. These are the things the sales guys
14 have to learn to sell around.

15 Q. These are still, specifically looking
16 at this, this is still a perception that exists today
17 in the marketplace?

18 A. Sure.

19 Q. Is this something that, say, your
20 competitors, Oracle, PeopleSoft, might use against SAP?

21 A. Oh, absolutely. Yeah. And the
22 reason why we put it here is that, for instance, if
23 PeopleSoft goes into a sales cycle versus us, often
24 times what we anticipate and what we think we know is
25 that PeopleSoft will go in and say, look how easy our

00154

1 system is, look how easy it is to implement, look how
2 fast we can implement it. SAP, one, it's going to cost
3 you a lot more, and it's going to take you a lot longer
4 to get it operational.

5 That's why, from PeopleSoft: That's
6 why we're a better company; that's why we have a better
7 solution; you should buy it from us. Thank you very
8 much, Mr. Customer.

9 That's the trap they are going to try
10 to sell against us. We put this out and we work our
11 sales people, this is the trap we anticipate PeopleSoft
12 using against it, so be prepared to sell around it; and
13 if you have an objection, how to overcome that objection.

14 Q. So this strategy on the part of
15 PeopleSoft and others has been at least somewhat
16 effective?

17 A. It's been effective to pose
18 uncertainty in dealing with SAP.

00163

23 Q. I'd like to ask you a few questions
24 about the sales cycling topic we kind of touched on a
25 few times. Maybe as a first step, maybe you could

00164

1 identify or describe the steps involved in the typical
2 sales cycle, and perhaps it might be useful just as a
3 frame of reference to use a multinational corporation.

4 So to just flush out kind of the
5 example, you have a multinational company going to
6 market for HR for financials. What are the steps from
7 beginning to the end?

8 A. First and foremost, there is not a
9 typical sales cycle in the enterprise application
10 software space. So I wish there was because it would
11 make our lives a lot easier. However, I'd like to at
12 least give you a general description of some of the
13 steps that we would normally go through.

14 In your example I'm going to assume
15 that in this a multinational corporation, that the
16 headquarters is in the U.S., and the decision-maker or
17 the decision-making process is actually in the U.S. Is
18 that acceptable?

19 Q. Absolutely.

20 A. Okay. Our account executive usually
21 is the first person to get into the company, and our
22 traditional line of business approach is to work with
23 the CIO, chief information officer of the company, CIO
24 or CTO, chief technology officer. That's SAP's
25 strength, that's who we have most of our established

00165

1 relationships with, that's who we speak to most
2 fluently in understanding his or her needs. And it
3 would be their responsibility to be the one to go and
4 procure an HR or a financial type system.
5 If it's a financial system, another
6 key influencer, and could even be the ultimate
7 decision-maker along with the CIO would be the CFO, so
8 it would be up to our account executives to, one, work
9 a relationship with the CIO and the CFO in order to
10 understand what are their needs specifically around the
11 financials solution that they are looking for. Again,
12 financials is a, we have a suite of things our
13 financial solution can do. So they may not need all of
14 that, they only may need a certain component, a certain
15 part of it. They may only be dealing with trying to
16 solve two or three problems versus, you know, replacing
17 their whole system. It just depends.

18 The goal, the role of the account
19 executive is to basically distill that information down
20 to find what is the key motivation and the key decision
21 drivers that is motivating this account to select a
22 financials package. In this case this being a
23 non-governmental entity, more than likely they do not
24 have an RFP. RFPs would be nice in this case because
25 they tell you what the problem is, they tell you what

00166

1 they are looking for, and a list of criteria that you
2 have to have to work against. In this case usually the
3 RFP does not exist in the early stages.

4 So it would be up to the accounting
5 executive to map to those two individuals inside the
6 company and to also work with their respective
7 departments to understand their needs.

8 At some point the sales cycle at some
9 point, maybe it's a month, maybe it's two months after
10 multiple discussions, multiple contact, multiple
11 meetings, at some point the account executive needs to
12 make a determination and find out as best as he or she
13 can: One, does that company have budget to procure?
14 Who the decision-maker is. What is the criteria by
15 which they are going to make a decision? And, last,
16 what is their time frame?

17 Based on those four areas or four
18 metrics, it is up to the account executive then to
19 determine when to engage additional resource. And
20 additional resources could include and are not limited
21 to maybe bringing in an industry principal, because
22 maybe it's a financial solution for a unique industry
23 that maybe the account executive is not that
24 comfortable with because he or she doesn't have a lot
25 of experience.

00167

1 So they may call in an industry
2 principal who happens to be a functional vertical
3 industry expert, all I know is chemicals, I know
4 chemicals forwards and backwards, and I know how the
5 financials are used in a chemical company like that.
6 They might bring in an industry principal to help out
7 in the sales cycle. And at some, then at some point
8 they are going to decide when is the best time to build
9 a demonstration and put the customer in front of a
10 demonstration.

11 The key for the demonstration is the
12 set-up, meaning, we do not want to bring a client into
13 a demonstration and show the client everything our
14 solution does. We would rather show the client exactly
15 the business process they are trying to solve and how
16 we address that issue. So identifying all these needs
17 up front helps us to then only demonstrate what the
18 customer needs to answer their question.

19 So at some point there's going to be
20 a demonstration; that demonstration often times is done
21 on-site, maybe 50/50, and the others in our offices.
22 During this demonstration process at some point the
23 account executive with his or her manager will need to
24 determine with the client who is their implementation
25 partner, who do they have a current relationship with?

00168

1 If it's IBM, if it's Accenture, who have they used in
2 the past for similar situations?
3 It is at this point that we would
4 normally have the account executive and/or his manager
5 maybe reach out to the partner, Accenture and IBM, and
6 also try to find out, are they going to be the ones
7 implementing whatever solution? Is the implementation
8 proposing an alternative solution to SAP? And, also,
9 is the implementation partner competing for the
10 services business?

11 So is it IBM services, Accenture or
12 just IBM? IBM owns the account and they got a great
13 relationship. So we try to determine that because that
14 helps us determine the type of mix in the decision-making
15 process. We go through the demo. Post demo, most of
16 the companies will bring in anywhere from two to four
17 companies to go through a demo cycle. So as this is
18 occurring, we're constantly being measured against
19 other companies. And one of our goals we try to get to
20 is try to determine what is the key decision factors
21 coming out of the demo? Who's winning? Who's not
22 winning? What went wrong? And what do we need to do
23 to win?

24 A demo cycle for, say, three or four
25 competitors could easily take a month, easily. It is

00169

1 not uncommon for some demos to go for four or five days
2 eight hours a day, depending upon the complexity of
3 their need. So if it is four competitors, that's one
4 month's cycle time at the end of the month, and then
5 they have to have a period of time that they determine
6 selection criteria. I want to whittle it down to two
7 competitors. I may want to begin parallel negotiations
8 with two competitors.

9 And they would begin some level of
10 negotiating with us and whoever maybe the other
11 competitor is. Often times at the end of the sales
12 cycle it is whittled down to two. At some point in the
13 sales cycle, some selection is made that will go with
14 one. And that could be a cut out of a negotiation
15 process, it could be they don't like our terms and
16 conditions, they may not like our pricing, maybe we are
17 not willing to budge on price because we believe we are
18 delivering superior value.

19 Whatever the factors are, at some
20 point they eventually whittle it down to one and then
21 finalize negotiations. That is at a high level is the
22 typical sales cycle. In the sales cycle multiple
23 people interact. For instance, for the demonstration,
24 it could be one to 10 people involved in presenting our
25 solution, and they are called solution engineers. In

00170

1 order to write the proposal, we may have our proposal
2 team involved in writing the proposal to help the
3 account executive write the proposal.

4 We may have a value engineer involved
5 in actually going on site to the customer in order to
6 determine value or help the customer to determine by
7 changing your process from A to B, you could save a
8 hundred million dollars. And you need to be ready to
9 benchmark this in two years. Or here's the set of
10 metrics you need to operate against for, say, the next
11 year or two. So, I mean, there's multiple people that
12 come in and out of the sales cycle, as I like to call
13 it, some virtual team. The account executive is of
14 course the focal point.

15 Also, then towards the end of sales
16 cycle, during the negotiation period, especially,
17 that's when we normally have our consulting involved to
18 try to get positioned into the job, if we are selected,
19 and also our education and training services to make
20 sure that we are going to handle their educational
21 needs to get them, their users up to speed on how to
22 use our software.

23 The sales cycle itself average length
24 for SAP in our established industries like core
25 manufacturing, average sales cycle is about 6.7

00171

1 months. In our emerging market industries it's
2 anywhere from eight to nine months. And in public
3 sector, which is totally different, we have some sales
4 cycles that are multi-year, because we can't get the
5 federal people to cough up the cash.

6 Take that out. Strike that part.

7 Strike that part. No digging into federal.

8 But that's the average sales cycle

9 timing, and kind of process.

16 Q. Does SAP encourage it's account
17 executives to really understand who the competition is
18 prior to this demonstration phase?

19 A. I wouldn't say SAP encourages, I
20 would say it's just an expectation. If you're going
21 into a demonstration, you should know as much about who
22 you're going to compete against than not. I don't
23 think there's a policy or mandate or anything. It's
24 just accepted practice.

21 Q. When do you become aware that you're
22 one of the finalists that is being -- at what point do
23 you understand you're either in negotiations or not in
24 negotiations?

25 A. Usually when the client tells us.

00184

1 Q. So that the client will tell you
2 you're out or you're in?

3 A. Yes. They will signal, you're in the
4 running.

5 Q. At that point --

6 A. Give me -- you've given me a proposal
7 but now I'd like to see a real proposal. Go back and
8 sharpen your pencils. Those are the signals that we
9 typically get.

10 Q. Once typically you said they may
11 engage two of you in the early negotiations?

12 A. Yes.

13 Q. How long do these negotiations last?

14 A. It totally varies on the client; some
15 are fast, some are drawn out and long.

16 Q. And what are the terms of these
17 negotiations, what's being discussed and negotiated?

18 A. Often times licensing, the pricing,
19 terms and conditions, and our standard contract, and
20 intellectual property rights to process, or maybe
21 something that we'll discover in their processes.

22 If there's any customer development
23 that we need to do to help get the solution to work,
24 they want to negotiate rights to it so we can't resell
25 it to other people, things like that.

00185

1 Q. Looking at all these different stages,
2 when is it that SAP begins to share its pricing or give
3 price quotes to a client?

4 A. In the determination phase, usually
5 clients, that's when we're trying to determine how much
6 they have in the budget; in other words, are they
7 serious about this and do they have a budget set aside
8 in their capital plan?

9 Usually there's a feel of ballpark
10 pricing at that phase, but usually where they say, we
11 really cannot give you a good price until after we see
12 a demonstration and really nail down your specific
13 requirements, and see if you agree. And if you agree
14 we can proceed to a more formalized proposal.

15 Typically after the more formalized
16 demonstration, they would receive some level of
17 proposal post detailing out how we're going to solve
18 their issue and the associated costs with it.

13 Q. How does SAP price the mySAP Business
14 Suite?

15 A. Okay. We standardize by pricing on
16 the type of user that's going to be necessary and the
17 functions that that user will have access to. That's
18 the traditional pricing model that we have in place
19 today.

11 Q. Now, correct me if I'm wrong, it's
12 late in the day. You said the determination phase
13 generally the customer's interested in some idea of
14 what pricing is?

15 A. That's based on budgeting. In other
16 words, we try to understand what their budget is. It's
17 up to the accounting executive to say, you know, is
18 this realistic? Based on what the client's saying they
19 need, do we think that's a ballpark realistic number to
20 procure those types of things? The reason is, we don't
21 want to book a bunch of resource time against a client
22 that has way, unrealistic expectations. You know, I
23 want a Ferrari for a dollar. That's not going to
24 happen. So why should I spend time with this client to
25 help him understand. He's going to have to substantially

00188

1 increase his budget.

2 Q. So the first, this is kind of an

3 internal determination?

4 A. Yes.

5 Q. What's the client's budget? What do

6 we think this solution is going to cost?

7 A. Right. We call that internally,

8 opportunity assessment, where it is up to the account

9 executive to work with his or her manager to say what

10 is the opportunity, what does it look like, is this

11 something we think we can win? Do we have solutions?

12 Do we think we can help this client? Is there going to

13 be enough delivered value? If so, we should probably

14 continue the sales cycle.

15 Q. When does the client start asking for

16 pricing information?

17 A. Normally they are asked -- they are

18 usually asking around the demonstration phase: What do

19 you think this is going to run? What do you think this

20 is going to cost in order to do this, this and this?

21 So I would say probably middle way

22 through they are asking that. Sometimes it's earlier

23 in determination. They may be saying, hey, I only have

24 X in my budget. Do you think you'll even be able to

25 help me in this area. But those typically are just

00189

1 verbals.

2 Q. When will SAP share that information?

3 Will it share it upon request?

4 A. Yeah. We'll give ballpark. The

5 account executives will give ballpark. But it is until

6 after the demonstration where we want to see it, we

7 want the client to weigh off and say, we agree this is

8 the process, before we like to give stuff in writing.

9 Q. Prior to the completion of the

10 demonstration process, these are all kind of verbal

11 ballpark figures?

12 A. Yes, verbal conversations.

13 Q. Once the demonstration phase is

14 engaged and the company has signaled that, okay, SAP,

15 we'd be interested in pursuing this a little further

16 with you?

17 A. Yes.

18 Q. Does SAP then submit a written

19 proposal covering, I would gather a number of different

20 things, but including pricing?

21 A. Yes, post demonstration we would

22 normally prepare a proposal for the client; yes.

23 Q. That would be a written proposal?

24 A. Yes, often times.

25 Q. What are the types of things a

00190

1 written proposal would cover?

2 A. What is the solution definition?

3 What is the cost? What we anticipate are going to be

4 their education and training needs. What is the

5 ongoing annuity or maintenance cost going forward?

6 What is, if we had a value engineer or we had ROI work

7 done on the occasion, we would try to establish a

8 return on investment and show them their savings.

9 Q. Is that the final word on these

10 negotiations, that first proposal?

11 A. No, that's just what it is, it's a

12 proposal. So it's usually really the key starting

13 point in the process of negotiations.

14 Q. In terms of pricing, is the pricing

15 quoted close to what the list prices might be?

16 A. Close, yes, probably close.

17 Q. The account executives are encouraged

18 to try and track the list price at least in that

19 initial proposal?

20 A. Absolutely, because the way our

21 pricing work is based on the size of the organization,

22 they are entitled, this is unusual, but they are

23 entitled to standard discounts. So based on the size

24 of the opportunity, they may be entitled to a 40 or 50

25 percent discount up front. That would be noted in the

00191

1 proposal offer. And the account executives are
2 encouraged to start using that as a starting point.

3 Q. So once that starting point happens,
4 I'm guessing you submitted your proposal, the company
5 or potential client then reacts with its own proposal;
6 is that right?

7 A. You mean, the client coming back to
8 us with a proposal?

9 Q. Yes. Right.

10 A. Typically not, it's usually verbals.
11 It's a collaborative process.

12 Q. You had mentioned that, at least,
13 that there are some standard discounts based on the
14 size of the opportunity?

15 A. Yes.

16 Q. Are there also guidelines that SAP
17 uses in discounts further along in the process?

18 A. No, I would not say there's any
19 standard policy beyond the standard discount. Beyond
20 that it's up to negotiation and terms of the value of
21 the client: How big the client is? Is it a brand
22 name? Are we trying to get penetration in an
23 industry? Do we need to show momentum in an industry?
24 Are we trying to get attraction in an industry?
25 There's a multiple of factors that would consider why

00192

1 or why not we would even consider a discount.

2 Q. Is one of those factors that may be
3 considered who else has been chosen as kind of a
4 finalist?

5 A. Sure.

21 Q. You've mentioned R/2 and R/3, and now
22 we're in mySAP Business Suite. How much time elapsed
23 between those sorts of product evolutions?

24 A. Okay. That's a great question from
25 the product life cycle standpoint. If we look at the

00200

1 evolution of the company, you're looking at a technology
2 platform range probably somewhere between 8 to 10
3 years. The evolution that you just spoke of is R/2 to
4 R/3, and our new platform is called NetWeaver. And
5 you're looking at a 10, 8 to 10 year cycle between each
6 of those major architectural change, innovations.

7 Today it is NetWeaver. Business
8 Suite is the software component that our technology
9 stack is called NetWeaver which replaces the foundation
10 for R/3.

11 Q. Was there a significant investment on
12 the part of SAP from going from R/3 to developing the
13 mySAP Business Suite?

14 A. Not for the Business Suite but for
15 NetWeaver, yes.

16 Q. For NetWeaver.

17 A. There was significant net resources.

18 Q. Do you have a ballpark figure of what
19 it took in terms of time and money?

20 A. Don't know money. I can speak to
21 approximate time and approximate labor. We're talking
22 somewhere in the neighborhood of like 2,000 people over
23 a year's time.

24 Q. And they were that building off of
25 what the development that already had gone on with R/2

00201

1 and then R/3, there was --

2 A. And changing it for what is now

3 NetWeaver, because we went from a closed environment

4 appropriate technology stack to now an open standards

5 technology stack, so we can integrate easier with dot

6 NetJ2EE, XML, and have an open integration platform;

7 whereas, R/3 was somewhat closed.

8 Q. So that effort to go from R/3 to

9 NetWeaver took about a year?

10 A. Plus.

11 Q. Plus?

12 A. 2,000 some odd people.

13 Q. So you were looking to create

14 NetWeaver from scratch, and you didn't have R/3,

15 something equivalent to NetWeaver. Do you have an idea

16 of what time or cost it would take to develop an

17 equivalent?

18 A. I would have no guess.

19 Q. Would it take more than a year plus

20 and 2,000 people?

21 A. I think the premise of the question

22 is just a little bit off. Your premise of the question

23 is, if I were to start from scratch. If I were to

24 start from scratch, I would not try to build NetWeaver,

25 because NetWeaver is just the foundation for what the

00202

- 1 software applications sit on.
- 2 Most companies in the evolution cycle
- 3 for building software are not going to worry about the
- 4 technology platform, they are going to use an open
- 5 standard and work on the technology side. The
- 6 technology is going to come much later in their life
- 7 cycle. They would never begin there. That's the wrong
- 8 end of spectrum to work on.